

HERZFELD CARIBBEAN BASIN FUND INC
Form 486BPOS
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Pre-Effective Amendment No.

Post-Effective Amendment No. 6

and/or

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

Amendment No. 15

THE HERZFELD CARIBBEAN BASIN FUND, INC.

(Exact Name of Registrant as Specified in Charter)

119 Washington Avenue, Suite 504 Miami Beach, FL 33139

(Address of Principal Executive Offices)

Registrant's Telephone Number, Including Area Code: (305) 271-1900

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The Herzfeld Caribbean Basin Fund, Inc.

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Approximate date of proposed public offering: From time to time after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, as amended, other than securities offered in connection with a dividend reinvestment plan, check the following box. [X]

It is proposed that this filing will become effective (check appropriate box)

When declared effective pursuant to Section 8(c).

If appropriate, check the following box:

Immediately pursuant to Rule 486(b) under the Securities Act as applied by no-action relief granted to Registrant on September 21, 2016.

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered (1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(2)
Common Stock			
Subscription Rights		\$100,000,000	\$11,620(3)

(1) There are being registered hereunder such indeterminate number of shares of common stock and such indeterminate number of subscription rights as shall have an aggregate offering price not to exceed \$100 million, less the aggregate dollar amount of all securities previously issued hereunder. The securities registered hereunder also include such indeterminate number of securities of each identified class of securities, which may be offered from time to time in unspecified numbers and at indeterminate prices, and as may be issued upon conversion, redemption, repurchase, exchange or exercise of any securities registered hereunder, including under any applicable anti-dilution provisions of any of such securities. In addition, pursuant to Rule 416 under the Securities Act of 1933, as amended, or the Securities Act, the securities being registered hereunder includes such indeterminate number of securities of each identified class of securities as may be issuable with respect to the securities being registered hereunder as a result of stock splits, stock dividends or similar transactions.

(2) Calculated pursuant to Rule 457(o) under the Securities Act based on the proposed maximum aggregate offering price of all securities listed.

(3) Previously paid.

BASE PROSPECTUS

\$100,000,000

THE HERZFELD CARIBBEAN BASIN FUND, INC.

Common Stock

Subscription Rights for Common Stock

The Herzfeld Caribbean Basin Fund, Inc. (the “Fund”) is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940 (the “1940 Act.”). Its investment adviser is HERZFELD/CUBA, a division of Thomas J. Herzfeld Advisors, Inc. (the “Adviser”). The Fund’s investment objective is long-term capital appreciation. To achieve its objective, the Fund invests in issuers that are likely, in the Adviser’s view, to benefit from economic, political, structural and technological developments in the countries in the Caribbean Basin, which include, among others, Cuba, Jamaica, Trinidad and Tobago, the Bahamas, the Dominican Republic, Barbados, Aruba, Haiti, the former Netherlands Antilles, the Commonwealth of Puerto Rico, Mexico, Honduras, Guatemala, Belize, Costa Rica, Panama, Colombia, the United States and Venezuela, or the “Caribbean Basin Countries”. The Fund invests at least 80% of its total assets in a broad range of securities of issuers, including U.S.-based companies which engage in substantial trade with, and derive substantial revenue from, operations in the Caribbean Basin Countries. The Fund may invest more than 25% of its total assets in the securities of U.S.-based companies, which constituted approximately 56% of the Fund’s total assets as of December 31, 2017. Total assets includes the amount of any borrowings for investment purposes. At such time as it becomes legally permissible for U.S. entities to invest directly in Cuba, the Fund will consider such investments. For additional information, see “Investment Objective and Policies”. Equity and equity-linked securities include, but are not limited to, common stock, preferred stock, debt securities convertible into equity, warrants, options and futures. An investment in the Fund is not appropriate for all investors and should not constitute a complete investment program. No assurances can be given that the Fund’s objective will be achieved.

We may offer, from time to time, in one or more offerings of up to \$100 million of our common stock, par value \$0.001 per share, or subscription rights described in this prospectus of which approximately \$3.9 million have been offered and sold as of March 27, 2018. We may sell our securities through underwriters or dealers, “at-the-market” to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or

agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus. In the event we offer common stock, the offering price per share of our common stock exclusive of any underwriting commissions or discounts will not be less than the net asset value, or NAV, per share of our common stock at the time we make the offering except (1) in connection with a subscription rights offering to our existing stockholders, (2) with the consent of the majority of our common stockholders and approval of our board of directors or (3) under such circumstances as the Securities and Exchange Commission (“SEC”) may permit.

Our common stock is traded on the NASDAQ Capital Market under the symbol “CUBA.” On March 27, 2018, the last reported sales price on the NASDAQ Capital Market for our common stock was \$7.15 per share. We determine the NAV per share of our common stock no less frequently than monthly. Our NAV per share of our common stock as of March 27, 2018 was \$8.36 (unaudited) and our total net assets were \$51,298,606.88 (unaudited). As of March 27, 2018 there were 6,133,659 shares of our common stock outstanding.

Investing in the securities may be considered speculative and involves a high degree of risk, including the risk of a total loss of investment. Shares of closed-end investment companies frequently trade at a discount to their net asset value. See “Risk Factors and Special Considerations” beginning on page 17 of this prospectus to read about the risks you should carefully consider before investing in our securities.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Investing in the Fund involves risks. See “Risk Factors and Special Considerations” on page 17 of this prospectus.

The date of this prospectus is March 29, 2018

This prospectus may not be used to consummate sales of securities by us through agents, underwriters or dealers unless accompanied by a prospectus supplement.

Please carefully read this prospectus and any accompanying prospectus supplement before investing in our securities and keep each for future reference. This prospectus and any accompanying prospectus supplement will contain important information about us that a prospective investor ought to know before investing in our securities.

We are required to file with or submit to the U.S. Securities and Exchange Commission, or "SEC," annual, semi-annual and quarterly reports, proxy statements and other information about us. You may request copies of these reports and filings, including this prospectus and accompanying prospectus supplement, free of charge, make inquiries or request other information about us by contacting us by mail at 119 Washington Avenue, Suite 504 Miami Beach, FL 33139 or by telephone at (800) TJH-FUND (toll-free) or (305) 271-1900. Copies of these reports and filings are also available free of charge through our website at <http://herzfeld.com/cuba>. The SEC also maintains a website at <http://www.sec.gov> that contains this information. The inclusion of our website address above and elsewhere in this prospectus and any accompanying prospectus supplement is, in each case, intended to be an inactive textual reference only and not an active hyperlink to our website. The information contained in, or that can be accessed through, our website is not part of this prospectus or any accompanying prospectus supplement.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained or incorporated by reference in this prospectus or any accompanying prospectus supplement. You must not rely on any unauthorized information or representations not contained in this prospectus or any accompanying prospectus supplement as if we had authorized it. We are offering to sell, and seeking offers to buy, shares of securities only in jurisdictions where offers and sales are permitted. This prospectus and any accompanying prospectus supplement does not constitute an offer to sell or the solicitation of an offer to buy any security other than the securities offered by this prospectus and any accompanying prospectus supplement, nor does this prospectus or any accompanying prospectus supplement constitute an offer to sell or the solicitation of an offer to buy securities by anyone in any jurisdiction in which such offer or solicitation would be unlawful. The information contained in this prospectus and any accompanying prospectus supplement is accurate only as of the date of this prospectus and any accompanying prospectus supplement, regardless of the time of delivery of this prospectus, any accompanying prospectus supplement or any sale of securities

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PROSPECTUS SUMMARY

This summary highlights some information that is described more fully elsewhere in this prospectus and is qualified in its entirety by the more detailed information included elsewhere in the prospectus. The summary does not purport to be a complete discussion of all matters referred to in this prospectus and any accompanying prospectus supplement and may not contain all of the information that is important to you. To understand an offering fully you should read the entire prospectus and any accompanying prospectus supplement carefully, including the “Risk Factors and Special Consideration,” before making a decision to invest in our securities.

You should carefully read the section entitled “Risk Factors and Special Considerations” in this prospectus, any accompanying prospectus supplement, and our financial statements included in our Annual Report to stockholders for the fiscal year ended June 30, 2017, filed with the SEC on August 29, 2017. References to “fiscal year” mean our applicable fiscal year which ends on June 30th in such year.

Except where the context requires otherwise, the terms the “Fund,” “we,” “us” and “our “ refer to The Herzfeld Caribbean Basin Fund, Inc. and the “Adviser” refers to HERZFELD/CUBA, a division of Thomas J. Herzfeld Advisors, Inc.

Information Regarding the Fund

The Herzfeld Caribbean Basin Fund, Inc. is a non-diversified, closed-end management investment company incorporated under the laws of the State of Maryland that has registered as an investment company under the 1940 Act. The Fund has elected and intends to continue to qualify annually to be treated as a regulated investment company under the Internal Revenue Code of 1986, as amended, or the “Code.”

The Fund’s investment objective is long-term capital appreciation. To achieve its objective, the Fund invests in issuers that are likely, in the Adviser’s view, to benefit from economic, political, structural and technological developments in the countries in the Caribbean Basin, which include, among others, Cuba, Jamaica, Trinidad and Tobago, the Bahamas, the Dominican Republic, Barbados, Aruba, Haiti, the former Netherlands Antilles, the Commonwealth of Puerto Rico, Mexico, Honduras, Guatemala, Belize, Costa Rica, Panama, Colombia, the United States and Venezuela, or the “Caribbean Basin Countries.” The Fund invests at least 80% of its total assets in equity and equity-linked securities of issuers, including U.S. based companies which engage in substantial trade with, and derive substantial revenue from, operations in the Caribbean Basin Countries. The Fund may invest more than 25% of its total assets in the securities of U.S.-based companies, which constituted approximately 56% of the Fund’s total assets as of December 31, 2017. Total assets includes the amount of any borrowings for investment purposes. At such time as it becomes legally permissible for U.S. entities to invest directly in Cuba, the Fund will consider such investments. See “Investment Objective and Policies.” Equity and equity-linked securities include, but are not limited to, common stock, preferred stock, debt securities convertible into equity, warrants, options and futures. An investment in the Fund is not

appropriate for all investors and should not constitute a complete investment program. No assurances can be given that the Fund's objective will be achieved.

The Offering

We may offer, from time to time, in one or more offerings, our common shares, \$0.001 par value per share, or our subscription rights to purchase our common shares (the "Offer" or the "Offering"), of which approximately \$3.9 million have been offered and sold as of March 27, 2018. The securities may be offered at prices and on terms to be set forth in one or more supplements to this prospectus (each a "prospectus supplement"). The offering price per common share will not be less than the net asset value per common share at the time we make the offering, exclusive of any underwriting commissions or discounts, provided that rights offerings that meet certain conditions may be offered at a price below the then current net asset value. See "Rights Offerings." You should read this prospectus and the applicable prospectus supplement carefully before you invest in our securities. Our securities may be offered directly to one or more purchasers, through agents designated from time to time by us or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents, underwriters, or dealers involved in the sale of our shares or notes, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. The prospectus supplement relating to any offering of subscription rights will set forth the number of common or preferred shares issuable upon the exercise of each right and the other terms of such rights offering. We may not sell any of our shares or notes through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the particular offering.

While the aggregate amount of securities we may issue pursuant to this registration statement is limited to \$100 million, our board of directors may, without any action by the stockholders, amend our Articles of Incorporation, as amended, from time to time to increase or decrease the aggregate number of shares or the number of shares of any class or series that we have authority to issue.

Information Regarding the Adviser and Custodian, Transfer Agent, Dividend Disbursing Agent, and Registrar

HERZFELD/CUBA, a division of Thomas J. Herzfeld Advisors, Inc. has acted as the investment adviser to the Fund since the Fund's registration under the 1940 Act. Our Investment Advisory Agreement with the Adviser, or the "Investment Advisory Agreement," sets forth the services to be provided by the Adviser. The Investment Advisory Agreement was last approved by our board of directors (the "board of directors" or "board") on August 10, 2017, and is required to be approved annually by our board. The Adviser is entitled to an advisory fee paid by the Fund at the annual rate of 1.45% of the Fund's average weekly net assets and payable at the end of each month. That fee is higher than the advisory fee paid by most investment companies. For the fiscal years ended June 30, 2017, 2016 and 2015, the Adviser earned \$665,528, \$560,707, and \$558,086, respectively, for investment advisory services provided to the Fund pursuant to the Investment Advisory Agreement.

See "Management of the Fund - Investment Adviser."

State Street Bank and Trust Company acts as custodian for the Fund's assets. State Street Bank and Trust Company also serves as the Fund's transfer agent, dividend/distribution disbursing agent, dividend reinvestment plan agent and as registrar for the Fund's common stock. For its services as custodian, the Fund currently pays State Street Bank and Trust Company a monthly fee of \$7,000. For its services as transfer agent, dividend reinvestment plan agent and registrar for the Fund's common stock, the Fund currently pays State Street Bank and Trust Company a monthly fee of \$2,000 plus related expenses.

See, "Custodian, Transfer Agent, Dividend Disbursing Agent, And Registrar".

Closed-End Fund Structure

The Fund is a non-diversified, closed-end management investment company under the 1940 Act, commonly referred to as a "closed-end fund." Closed-end management investment companies differ from open-end management investment companies (commonly referred to as "mutual funds") in that closed-end funds generally list their shares for trading on a stock exchange and do not redeem their stock at the request of the stockholder. This means that if a stockholder wishes to sell shares of a closed-end management investment company, he or she must trade them on the market, like any other stock, at the prevailing market price at that time. With respect to a mutual fund, if the stockholder wishes to sell shares of the company, the mutual fund will redeem, or buy back, the shares at NAV. Mutual funds also generally offer new shares on a continuous basis to new investors, and closed-end management investment companies generally do not. The continuous inflows and outflows of assets in a mutual fund can make it difficult to manage the company's investments. By comparison, closed-end management investment companies are generally able to stay more fully invested in securities that are consistent with their investment objectives and also have greater flexibility to make certain types of investments and to use certain investment strategies, such as investments in illiquid securities.

When shares of closed-end management investment companies are traded, they may trade at a discount to their NAV. This characteristic of shares of closed-end management investment companies is a risk separate and distinct from the risk that the closed-end management investment company's NAV may decrease as a result of investment activities. Our conversion to an open-end mutual fund would require an amendment to the Fund's articles of incorporation.

Investment Focus

The Fund's investment objective is to obtain long-term capital appreciation. This objective may not be changed without the prior approval of the holders of a majority of the Fund's outstanding voting securities. As further described below, the Fund pursues its objective by investing primarily in equity and equity-linked securities of public and private companies, including U.S.-based companies, (i) whose securities are traded principally on a stock exchange in a Caribbean Basin Country, (ii) that have at least 50% of the value of their assets in a Caribbean Basin Country or (iii) that derive at least 50% of their total revenue from a Caribbean Basin Country, which we refer to collectively as "Caribbean Basin Companies." Current income through receipt of interest or dividends from the Fund's securities is incidental to the Fund's efforts to attain its investment objective.

The Fund invests in Caribbean Basin Companies that are likely, in the opinion of the Adviser, to benefit from economic, political, structural and technological developments in the Caribbean Basin Countries. Under normal market conditions, the Fund invests at least 80% of its total assets in equity and equity-linked securities of Caribbean Basin Companies. This 80% policy may be changed without stockholder approval upon sixty days written notice to stockholders. Total assets includes the amount of any borrowings for investment purposes. The Fund may invest more than 25% of its total assets in the securities of U.S.-based companies, which constituted approximately 56% of the Fund's total assets as of December 31, 2017.

Investment in Cuban securities or any investment in Cuba directly or indirectly is currently prohibited under U.S. law. At such time as it becomes legally permissible for U.S. entities to invest directly in Cuba, the Fund will consider such investments. U.S. law currently prohibits the Fund from investing its assets in securities of companies that benefit from free trade with Cuba, which we refer to as "companies strategically linked to Cuba." Companies strategically linked to Cuba may include a company that benefits from free trade with Cuba, but does not meet the definition of Caribbean Basin Company set forth above. If permitted to make such investments upon a lifting or easing of the U.S. trade embargo against Cuba or pursuant to regulations promulgated by a department or agency of the U.S. Government, the Fund may invest up to 20% of its assets in equity and equity-linked securities of non-Caribbean Basin Companies strategically linked to Cuba.

The United States re-established diplomatic relations with Cuba and reopened the U.S. embassy in Havana on July 20, 2015. Additionally, the U.S. Department of the Treasury has issued a series of amendments to the Cuban Assets Control Regulations in 2015 and 2016, that may facilitate travel to Cuba by U.S. trade delegations and by U.S. citizens who engage in certain commercial activities, although the future impact that these regulatory changes may have on travel related to possible investment in Cuba or Cuban securities (if any such investment activities become legally permissible) is not yet clear. There can be no assurances that the U.S. trade embargo against Cuba will ever be lifted or eased or, if and when such lifting or easing of the embargo commences, that the Adviser will be able to identify direct investments in issuers domiciled in Cuba that are acceptable for the Fund. If investment in securities issued by companies domiciled in Cuba were to be permitted under U.S. law, certain risks and special considerations not typically associated with investing in securities of U.S. companies would be relevant to such securities. These risks include, among others, restrictions on foreign investment and on repatriation of capital invested in Cuba, unstable currency exchange and fluctuation, the absence of a capital market structure or market oriented economy, potential price volatility and lesser or lack of liquidity of shares listed on a securities market (if one is established), continued political and economic risks and other risks described in "Risk Factors and Special Considerations".

Equity securities of public and private companies that may be purchased by the Fund consist of common stock, convertible and non-convertible preferred stock (whether voting or non-voting), debt with equity warrants and unattached warrants. Debt issued with a warrant entitles the holder to purchase equity shares and differs from convertible debt because the conversion feature is in the form of a separately traded warrant. Equity-linked securities of public and private companies that may be purchased by the Fund consist of debt securities convertible into equity and securities such as warrants, options and futures, the prices of which are functions of the value of the equity securities receivable upon exercise or settlement thereof.

We may invest up to 20% of our assets in non-equity linked debt securities including foreign denominated corporate debt and sovereign debt issued by foreign governments, their agencies or instrumentalities, or other government-related entities.

For more information, see "Investment Objective and Policies".

Summary Risk Factors and Special Considerations

The value of our assets, as well as the market price of our securities, will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. For additional information about the risks associated with investing in the Fund's common stock, see "Risk Factors and Special Considerations."

The Fund is a non-diversified, closed-end investment company designed primarily as a long-term investment and not as a trading tool. The Fund invests generally in a portfolio of Caribbean Basin Companies. An investment in the Fund

should be considered speculative and involves a high degree of risk. The Fund's shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any governmental agency.

Risks that you should carefully consider before investing in our securities include, but are not limited to, the following:

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Shares of closed-end funds frequently trade at a market price that is less than the value of the net assets attributable to those shares (a “discount”). The possibility that the Fund’s shares will trade at a discount from NAV is a risk separate and distinct from the risk that the Fund’s NAV will decrease.

Discount From NAV The risk of purchasing shares of a closed-end fund that might trade at a discount or unsustainable premium is more pronounced for investors who wish to sell their shares in a relatively short period of time after purchasing them because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance.

Caribbean Basin Countries Investing in the securities of non-U.S. issuers involves certain risks and considerations not typically associated with investing in securities of U.S. issuers. These risks include currency fluctuations, political and economic risks, including nationalization and expropriation, reduced levels of publicly available information concerning issuers and reduced levels of government regulation of foreign securities markets. Also, investment in Caribbean Basin Countries may involve special considerations, such as limited liquidity and small market capitalization of the Caribbean Basin securities markets, currency devaluations, high inflation and repatriation restrictions.

Equity and Equity-Linked Securities Risk Consistent with its objective, the Fund invests a substantial portion of its assets in equity securities of Caribbean Basin Companies. Equity securities, such as common stock, generally represent an ownership interest in a company. An adverse event, such as an unfavorable earnings report, may depress the value of a particular equity security held by the Fund. Also, the prices of equity securities, particularly common stocks, are sensitive to general movements in the stock market. The Fund’s share price can fall because of weakness in the markets in which it invests, a particular industry or specific holdings. Markets as a whole can decline for many reasons, including adverse political or economic developments, changes in investor psychology, or heavy institutional selling. The prospects for an industry or company may deteriorate because of a variety of factors, including disappointing earnings or changes in the competitive environment. Investments in futures and options, if any, are subject to additional volatility and potential losses.

The Fund may also invest in preferred stock, convertible securities and other types of equity-linked securities. The market value of preferred and convertible securities and other debt securities tends to fall when prevailing interest rates rise. Preferred securities may pay fixed or adjustable rates of return. Preferred securities are subject to issuer-specific and market risks applicable generally to equity securities. In addition, a company’s preferred securities generally pay dividends only after the company makes required payments to holders of its bonds and other debt. For this reason, the value of preferred securities will usually react more strongly than bonds and other debt to actual or perceived changes in the company’s financial condition or prospects. Preferred securities of smaller companies may be more vulnerable to adverse developments than preferred stock of larger companies. The market value of a convertible security performs like that of a regular debt security; that is, if market interest rates rise, the value of a convertible security usually falls. In addition, convertible securities are subject to the risk that the issuer will not be able to pay interest or dividends when due, and their market value may change based on changes in the issuer’s credit rating or the market’s perception of the issuer’s creditworthiness. Since it derives a portion of its value from the common stock into which it may be converted, a convertible security is also subject to the same types of market and issuer risks that apply to the underlying common stock. Equity-linked securities bear the risk that, in addition to market risk and other risks of the referenced equity security, the Fund may experience a return that is different from that of the referenced equity security. Equity-linked

instruments also subject the Fund to counterparty risk, including the risk that the issuing entity may not be able to honor its financial commitment, which could result in a loss of all or part of the Fund's investment.

Investment in Cuban securities or any investment in Cuba directly or indirectly is currently prohibited under U.S. law. There can be no assurances that the U.S. trade embargo against Cuba will ever be lifted or eased or, if and when such a normalization commences, that the Adviser will be able to identify direct investments in issuers domiciled in Cuba that are acceptable for the Fund.

***Cuba Specific
Issues***

However, if investment in securities issued by companies domiciled in Cuba were to be permitted under U.S. law, certain considerations not typically associated with investing in securities of U.S. companies should be considered, including: (1) restrictions on foreign investment and on repatriation of capital invested in Cuba; (2) unstable currency exchange and fluctuation; (3) the cost of converting foreign currency into U.S. Dollars; (4) potential price volatility and lesser or lack of liquidity of shares listed on a securities market (if one is established); (5) continued political and economic risks including a new government that if not properly stabilized may lead to the risk of nationalization or expropriation of assets and the risk of civil war; (6) the absence of a developed legal structure governing private property; (7) the absence of a capital market structure or market oriented economy; and (8) the difficulty of assessing the financial status of particular companies.

***“Non-diversified”
Investment
Company***

As a “non-diversified” investment company, the Fund’s investments involve greater risks than would be the case for a similar diversified investment company because the Fund is not limited by the Investment Company Act of 1940, as amended (the “1940 Act”), in the proportion of its assets that may be invested in the assets of a single issuer. Although the Fund is not diversified for the purposes of the 1940 Act, it must maintain a certain degree of diversification in order to comply with certain requirements of the Code, applicable to regulated investment companies. See “Risk Factors/Special Considerations” and “Taxation.”

Management Risk

The Adviser’s judgment about the attractiveness, relative value or potential appreciation of a particular security or investment strategy may prove to be incorrect.

***Dividends and
Distributions***

The Fund distributes annually to its stockholders substantially all of its net investment income and net short-term capital gains. The Fund determines annually whether to distribute any net realized long-term capital gains in excess of net realized short-term capital losses. We paid annual distributions to our common stockholders in fiscal year 2017 of \$0.13496 per share and in fiscal year 2016 of \$0.16 per share. See “Dividends and Distributions: Dividend Reinvestment Plan” and “Taxation.”

***Plan of
Distribution***

We may offer, from time to time, up to \$100 million of our securities, on terms to be determined at the time of each such offering and set forth in a supplement to this prospectus.

Securities may be offered at prices and on terms described in one or more supplements to this prospectus. We may sell our securities through underwriters or dealers, “at-the-market” to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The supplement to this prospectus relating to an offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee and commission or discount

arrangement or the basis upon which such amount may be calculated. In compliance with the guidelines of the Financial Industry Regulatory Authority, Inc., or FINRA, the compensation to the underwriters or dealers in connection with the sale of our securities pursuant to this prospectus and the accompanying supplement to this prospectus may not exceed 8% of the aggregate offering price of the securities as set forth on the cover page of the supplement to this prospectus.

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We may not sell securities pursuant to this prospectus without delivering a prospectus supplement describing the terms of the particular securities to be offered and the method of an offering of such securities. See “Plan of Distribution”.

***Certain
Charter
Provisions***

The Fund’s Articles of Incorporation, as amended, include provisions that could have the effect of: inhibiting the Fund’s possible conversion to open-end status; limiting the ability of other entities or persons to acquire control of the Fund or to change the composition of its board; and depriving stockholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. See “Description of Common Stock.”

***Market
Disruption
Risk***

Certain events have had a disruptive effect on the securities markets, such as terrorist attacks, war and other geopolitical events, hurricanes, droughts, floods and other disasters. The Fund cannot predict the effects of similar events in the future on the markets or economies of Caribbean Basin Countries.

The risks and special considerations discussed above apply generally to the investments and strategies that the Adviser will use under normal market conditions. The Fund and the Adviser also may use other strategies and engage in other investment practices. For more information about the risks described above and other risks, see “Risk Factors and Special Considerations” and, risks and special considerations discussed in any accompanying prospectus supplement. In addition, the other information included in this prospectus and any accompanying prospectus supplement contains a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that you will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus and any accompanying prospectus supplement contains a reference to fees or expenses paid by “us” or the Fund or that “we” will pay fees or expenses, you will indirectly bear such fees or expenses as an investor in the Fund.

Fee Table

Stockholder Transaction Expenses:

Sales load (as a percentage of the offering price) (1)	[]%
Offering expenses borne by us (1)	[]%
Dividend reinvestment plan fees	None
Total stockholder transaction expenses (as a percentage of offering price)	

Annual Expenses (as a percentage of net assets attributable to common shares):

Management Fees	1.45%
Other expenses (estimated) (2)	1.03%
Acquired fund fees and expenses (3)	0.00%
Total Annual Expenses (estimated) (4)	2.48%

(1) To be provided by amendment. The actual amounts in connection with any offering will be set forth in the prospectus supplement if applicable.

(2) “Other Expenses” do not include expenses of the Fund incurred in connection with any Offer. However, these expenses will be borne by the holders of the shares of common stock of the Fund and result in a reduction in the net asset value, or “NAV”, of the shares of common stock.

(3) Includes fees and expenses of approximately 0.00% incurred indirectly as a result of investment in shares of one or more “Acquired Funds,” which include (i) investment companies, or (ii) companies that would be an investment company under Section 3(a) of the 1940 Act except for exceptions under Sections 3(c)(1) and 3(c)(7) under the 1940 Act.

Total Annual Expenses may not correlate to the ratio of expenses to average net assets disclosed in the Fund's (4) annual and semi-annual reports to stockholders in the financial highlights table, which reflects operating expenses of the Fund and does not include "Acquired Fund" fees and expenses.

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock.

	Cumulative Expenses Paid for the Period of:			
	1 year	3 years	5 years	10 years
An investor would pay the following expenses on a \$1,000 investment, assuming a 5% annual return:	\$25	\$77	\$132	\$282

The example and the expenses in the tables above should not be considered a representation of past or future expenses or annual rates of return and actual expenses or annual rates of return may be more or less than those shown. The foregoing table and example are intended to assist investors in understanding the costs and expenses that an investor in the Fund will bear directly or indirectly. "Other Expenses" are based on estimated amounts for the current fiscal year. See "Management of the Fund" for additional information.

The example assumes the reinvestment of all dividends and distributions at NAV and an expense ratio of 2.48%. The tables above and the assumption in the example of a 5% annual return are required by SEC regulations applicable to all investment companies. In addition, while the example assumes the reinvestment of all dividends and distributions at NAV, participants in the Dividend Reinvestment Plan may receive shares purchased or issued at a price or value different from NAV. See "Dividends and Distributions; Dividend Reinvestment Plan."

FINANCIAL HIGHLIGHTS

The table below sets forth selected data for a share of common stock outstanding for each period presented. The information for the fiscal years ended June 30, 2017, and 2016 has been audited by Tait Weller, the Fund's independent registered public accounting firm. The information for the fiscal years ended June 30, 2015, 2014, and 2013 contained in the table was audited by the Fund's former independent registered public accounting firms. Audited financial statements for the Fund for the fiscal year ended June 30, 2017, are included in the Annual Report to stockholders. The Annual Report to stockholders is available without charge by calling (800) TJH-FUND.

	Six Months Ended 12/31/17 unaudited	Year Ended June 30,				
		2017	2016	2015	2014	2013
Per Share Operating Performance						
(For a share of capital stock outstanding for each year)						
Net asset value, beginning of year	\$8.32	\$6.47	\$7.43	\$9.12	\$9.28	\$7.90
Operations:						
Net investment loss ⁽¹⁾	(0.05)	(0.14)	(0.07)	(0.11)	(0.07)	(0.03)
Net realized and unrealized gain (loss) on investment transactions	0.19	2.12	(0.80)	(0.08)	1.05	1.61
Total from operations	0.14	1.98	(0.87)	(0.19)	0.98	1.58
Distributions:						
From net realized gains	(0.12)	(0.13)	(0.16)	(0.64)	(1.14)	(0.20)
Total distributions	(0.12)	(0.13)	(0.16)	(0.64)	(1.14)	(0.20)
Dilutive effect of rights offering	--	--	--	(0.86)	--	--
Accretive effect of ATM offering	--	--	0.07	--	--	--
Accretive effect of shares in reinvestment of distribution	--	--	0.00 ⁽²⁾	0.00 ⁽²⁾	--	--
Net asset value, end of year	\$8.34	\$8.32	\$6.47	\$7.43	\$9.12	\$9.28
Per share market value, end of year	\$7.15	\$7.20	\$6.11	\$9.46	\$8.15	\$8.51
Total investment return (loss) based on market value per share	(0.69)	20.17 %	(33.73 %)	25.40 %	8.98 %	25.31 %
Ratios And Supplemental Data						
Net assets, end of year (in 000's)	\$51,170	\$51,047	\$39,669	\$41,611	\$33,862	\$34,445
	2.48	% ⁽³⁾ 3.36 %	3.20 %	2.97 %	2.46 %	2.50 %

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Ratio of expenses to average net assets

Ratio of net investment loss to average net assets	(1.09	%) ⁽³⁾	(1.86 %)	(0.99 %)	(1.36 %)	(0.78 %)	(0.38 %)
Portfolio turnover rate	14	%	16 %	9 %	14 %	24 %	37 %
Average commission rate (per share)*	\$0.0060		\$0.0058	\$0.0064	\$0.0075	\$0.0075	\$0.009

(1) Computed by dividing the respective year's amounts from the Statement of Operations by the average outstanding shares for each year presented.

(2) Amount less than \$0.01.

(3) This figure has been annualized; however, the percentage shown is not necessarily indicative of results for a full year.

*Unaudited.

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PRICE RANGE OF COMMON STOCK

The following table sets forth, for the periods indicated, the high and low sales prices for the shares on the NASDAQ Capital Market, the NAVs per share on the dates of the high and low sales prices, and the discount or premium that each sales price represented as a percentage of the preceding NAV:

Share Price Data

Quarter Ended	High	NAV (on High Date)	Premium/ (Discount) (on High Date)	Low	NAV (on Low Date)	Premium/ (Discount) (on Low Date)
12/31/2017	\$7.35	\$8.53	-13.83%	\$6.73	\$8.10	-16.91%
9/30/2017	\$7.46	\$8.47	-11.92%	\$6.87	\$8.32	-17.43%
6/30/2017	\$7.25	\$8.19	-11.49%	\$6.85	\$7.92	-13.51%
3/31/2017	\$7.10	\$7.93	-10.47%	\$6.40	\$7.41	-13.63%
12/31/2016	\$7.47	\$7.41	0.81%	\$6.02	\$7.20	-16.38%
9/30/2016	\$6.49	\$7.07	-8.20%	\$5.99	\$6.68	-10.33%
6/30/2016	\$7.16	\$6.59	8.65%	\$6.80	\$6.14	-5.54%
3/31/2016	\$8.49	\$6.69	26.91%	\$4.72	\$5.61	-15.86%
12/31/2015	\$7.59	\$7.09	7.05%	\$6.27	\$6.53	-3.98%
9/30/2015	\$10.75	\$7.43	44.68%	\$6.77	\$6.52	3.83%

Our common stock has historically traded at a premium or at a discount to its NAV. We cannot predict whether our common stock will trade at a premium or discount to NAV in the future. In recognition of the possibility that the Fund's shares might trade at a discount to NAV, our board of directors may determine that it would be in the best interest of stockholders of the Fund to take action to attempt to reduce or eliminate a market value discount from NAV. To that end, the board may take action from time to time either to repurchase Fund shares in open market or private transactions or to make a tender offer for Fund shares at NAV. No assurance can be given that the board will decide to undertake such repurchases or tender offers, or that any such repurchases or tender offers would reduce any market discount. The board does not currently intend to undertake repurchases or tenders offers. See also, "Description of Common Stock - Share Repurchases and Tender Offers".

USE OF PROCEEDS

Unless otherwise specified in a prospectus supplement, we intend to use all or substantially all of the net proceeds from a sale of our securities, pursuant to a prospectus supplement, if any, for acquiring investments in accordance with our investment objective and policies described in this prospectus and any accompanying prospectus supplement and for general corporate purposes. The Adviser anticipates that such proceeds, if received, will be invested promptly as investment opportunities are identified, depending on market conditions and the availability of appropriate securities, which we anticipate will take not more than approximately three to six months from the closing of any offering. Pending investment, the proceeds will be invested in short-term cash-equivalent instruments. Although the Adviser anticipates that a substantial portion of the proceeds from any offering will be invested pursuant to the Fund's investment objective and policies, some of the proceeds may be used to make capital gain distributions required to maintain the Fund's tax status as a regulated investment company.

INVESTMENT OBJECTIVE AND POLICIES

Investment Policies - General

The Fund's investment objective is to obtain long-term capital appreciation. This objective may not be changed without the prior approval of the holders of a majority of the Fund's outstanding voting securities. The Fund pursues its objective by investing primarily in equity and equity-linked securities of public and private companies, including U.S.-based companies, (i) whose securities are traded principally on a stock exchange in a Caribbean Basin country, (ii) that have at least 50% of the value of their assets in a Caribbean Basin Country or (iii) that derive at least 50% of their total revenue from operations in a Caribbean Basin country (collectively referred to herein as "Caribbean Basin Companies"). Current income through receipt of interest or dividends from the Fund's securities is incidental to the Fund's efforts to attain its investment objective. The Fund invests in Caribbean Basin Companies that are likely, in the opinion of the Adviser, to benefit from political, legal and economic developments in the Caribbean Basin Countries. Under normal market conditions, the Fund invests at least 80% of its total assets in equity and equity-linked securities of Caribbean Basin Companies, including U.S.-based companies which engage in substantial trade with, and derive substantial revenue from, operations in the Caribbean Basin Countries. Total assets includes the amount of any borrowings for investment purposes. The Fund may invest more than 25% of its total assets in the securities of U.S.-based companies. U.S. law currently prohibits the Fund from investing its assets in securities of companies that benefit from free trade with Cuba ("companies strategically linked to Cuba"). Companies strategically linked to Cuba may include a company that benefits from free trade with Cuba, but does not meet the definition of Caribbean Basin Company set forth above. If permitted to make such investments upon a lifting or easing of the U.S. trade embargo against Cuba or pursuant to regulations promulgated by a department or agency of the U.S. Government, the Fund may invest up to 20% of its assets in equity and equity-linked securities of non-Caribbean Basin Companies strategically linked to Cuba.

The Fund's investment objective is fundamental and may not be changed without the approval of the Fund's outstanding voting securities. As used in this prospectus, a majority of the Fund's outstanding voting securities means the lesser of (i) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are present in person or represented by proxy or (ii) more than 50% of the outstanding shares. The Fund's investment policies may be changed by its board without stockholder approval, but the Fund will not change its investment policies without notice to its stockholders. The Fund is designed primarily for long-term investment, and investors should not consider it a trading vehicle. An investment in the Fund's shares should not constitute a complete investment program. The Fund's NAV can be expected to fluctuate, and no assurance can be given that the Fund will continue to achieve its investment objective.

Equity securities of public and private companies that may be purchased by the Fund consist of common stock, convertible and non-convertible preferred stock (whether voting or non-voting), debt with equity warrants and unattached warrants. Debt issued with a warrant entitles the holder to purchase equity shares and differs from convertible debt because the conversion feature is in the form of a separately traded warrant. Equity-linked securities of public and private companies that may be purchased by the Fund consist of debt securities convertible into equity and securities such as warrants, options and futures, the prices of which are functions of the value of the equity

securities receivable upon exercise or settlement thereof.

The Fund may also invest in the shares of other registered investment companies, some of which may be Caribbean Basin Companies. By investing in shares of investment companies, the Fund would indirectly pay a portion of the operating expenses, management expenses and brokerage costs of such companies as well as the expense of operating the Fund. Thus, the Fund's investors may indirectly pay higher total operating expenses and other costs than they might pay by owning the underlying investment companies directly. The Adviser will continue to attempt to identify investment companies that have demonstrated superior management in the past, thus possibly offsetting these factors by producing better results and/or lower expenses than other investment companies. There can be no assurance that this result will continue to be achieved. In addition, Section 12(d)(1)(A) of the 1940 Act imposes limits on the amount of the investment of the Fund's assets, and those of its affiliates, in any investment company and that provision may adversely affect the Fund's ability to purchase or redeem shares issued by an investment company.

The Fund may invest in securities that lack an established secondary trading market or otherwise are considered illiquid. Liquidity of a security relates to the ability to dispose easily of the security and the price to be obtained upon disposition of the security, which may be less than would be obtained for a comparable more liquid security. Illiquid securities may trade at a discount from comparable, more liquid investments. Investment of the Fund's assets in illiquid securities may restrict the ability of the Fund to dispose of its investments in a timely fashion and for a fair price as well as its ability to take advantage of market opportunities. The risks associated with illiquidity will be particularly acute where the Fund's operations require cash, such as when the Fund redeems shares or pays a distribution, and could result in the Fund borrowing to meet short-term cash requirements or incurring capital losses on the sale of illiquid investments.

The Fund may invest in securities that are not registered under the Securities Act ("restricted securities"). Restricted securities may be sold in private placement transactions between issuers and their purchasers and may be neither listed on an exchange nor traded in other established markets. In many cases, privately placed securities may not be freely transferable under the laws of the applicable jurisdiction or due to contractual restrictions on resale. As a result of the absence of a public trading market, privately placed securities may be less liquid and more difficult to value than publicly traded securities. To the extent that privately placed securities may be resold in privately negotiated transactions, the prices realized from the sales, due to illiquidity, could be less than those originally paid by the Fund or less than their fair market value. In addition, issuers whose securities are not publicly traded may not be subject to the disclosure and other investor protection requirements that may be applicable if their securities were publicly traded. If any privately placed securities held by the Fund are required to be registered under the securities laws of one or more jurisdictions before being resold, the Fund may be required to bear the expenses of registration. Certain of the Fund's investments in private placements may consist of direct investments and may include investments in smaller, less seasoned issuers, which may involve greater risks. These issuers may have limited product lines, markets or financial resources, or they may be dependent on a limited management group. In making investments in such securities, the Fund may obtain access to material nonpublic information, which may restrict the Fund's ability to conduct portfolio transactions in such securities.

Temporary Defensive Positions

The Fund may vary its investment policy for temporary defensive purposes when, in the opinion of the Adviser, such a change is warranted due to changes in the securities markets in which the Fund may invest or other economic or political conditions affecting such markets. For temporary defensive purposes, the Fund may reduce its position in equity and equity-linked securities and invest in U.S. Treasury bills and U.S. Dollar denominated bank time deposits and certificates of deposit rated high quality or better by any nationally recognized statistical rating service or, if unrated, of equivalent investment quality as determined by the Adviser. The banks whose obligations may be purchased by the Fund will include any member of the U.S. Federal Reserve System. The Fund does not seek to achieve its stated investment objective when it has assumed a temporary defensive position.

Special Leverage Considerations

Hedging Transactions

The Fund may employ one or more of the hedging techniques described below, primarily to protect against a decrease in the U.S. Dollar equivalent value of its portfolio securities denominated in foreign currencies or in the payments thereon that may result from an adverse change in foreign currency exchange rates. Conditions in the securities, futures, options and foreign currency markets will continue to determine whether and under what circumstances the Fund will employ any of the techniques or strategies described below. The Fund's ability to pursue certain of these strategies may be limited by applicable regulations of the Commodity Futures Trading Commission ("CFTC") and the Federal tax requirements applicable to regulated investment companies. See "Taxation."

Pursuant to applicable law and subject to certain restrictions, the Fund may effect hedging transactions on a variety of U.S. and foreign exchanges. The operations of U.S. exchanges are considered to be subject to more stringent regulation and supervision than those of certain non-U.S. exchanges.

If any percentage limitations applicable to the transactions described below are exceeded due to market fluctuations after an initial investment, the Fund may not enter into new transactions of the type to which the exceeded limitation applies until the total of the Fund's commitments with respect to such transactions falls within the applicable limitation.

Forward Foreign Currency Exchange Contracts

The Adviser believes that in some circumstances the purchase and sale of forward foreign currency exchange contracts (“forward contracts”) may help offset declines in the U.S. Dollar equivalent value of the Fund’s assets denominated in foreign currencies and in the income available for distribution to the Fund’s stockholders that would result from adverse changes in the exchange rate between the U.S. Dollar and such foreign currencies. For example, the U.S. Dollar equivalent value of the principal of and rate of return on, the Fund’s foreign denominated securities will decline if the exchange rate fluctuates between the U.S. Dollar and such foreign currency whereby the U.S. Dollar increases in value. Such a decline could be partially or completely offset by an increase in the value of a foreign currency forward contract. The Fund may purchase forward contracts involving either the currencies in which certain of its portfolio securities are denominated or, in cross-hedging transactions, other currencies, changes in the value of which correlate closely with the changes in the value of the currencies in which its portfolio securities are denominated. The Fund will enter into such cross-hedging transactions (i) only with respect to currencies whose foreign exchange rate changes historically have shown a high degree of correlation to changes in the foreign exchange rate of the currency in which the hedged asset is denominated (a “correlated currency”) and (ii) only when the Adviser believes that the increase in correlation risk is offset by the lower transaction costs and increased liquidity available for financial instruments denominated in the correlated currency.

The Fund may enter into forward contracts or maintain a net exposure on such contracts only if (i) the consummation of the contracts would not obligate the Fund to deliver an amount of foreign currency in excess of the value of the Fund’s portfolio securities or other assets denominated in that currency or (ii) the Fund maintains cash, U.S. Government securities or other liquid, high-grade debt securities in a segregated account in an amount not less than the value of the Fund’s total assets committed to the consummation of the contract.

Although the use of forward contracts may protect the Fund against declines in the U.S. Dollar equivalent value of the Fund’s assets, such use may reduce the possible gain from advantageous changes in the value of the U.S. Dollar against particular currencies in which the Fund’s assets are denominated. Moreover, the use of forward contracts will not eliminate fluctuations in the underlying U.S. Dollar equivalent value of the prices of, or rates of return on, the assets held in the Fund’s portfolio.

The use of forward contracts subjects the Fund to certain risks. The matching of the increase in value of a forward contract and the decline in the U.S. Dollar equivalent value of the asset that is the subject of the hedge generally is not precise. The success of any of these techniques depends on the ability of the Adviser to predict correctly movements in foreign currency exchange rates. If the Adviser incorrectly predicts the direction of such movements or if unanticipated changes in foreign currency exchange rates occur, the Fund’s performance may be poorer than if it had not entered into such contracts. The cost to the Fund of engaging in forward contracts varies with such factors as the foreign currency involved, the length of the contract period and the prevailing market conditions, including general market expectations as to the direction of the movement of various foreign currencies against the U.S. Dollar. Consequently, because the Fund may not always be able to enter into forward contracts at attractive prices, it may be limited in its ability to use such contracts to hedge its assets or for other risk management purposes. In addition, there can be no assurance that historical correlations between the movements of certain foreign currencies relative to the U.S. Dollar will continue.

Options on Foreign Currencies

The Fund may purchase and write put and call options on foreign currencies to protect against a decline in the U.S. Dollar equivalent value of its portfolio securities or payments due thereon or a rise in the U.S. Dollar equivalent cost of securities that it intends to purchase. A foreign currency put option grants the holder the right, but not the obligation, at a future date to sell a specified amount of a foreign currency to its counterparty at a predetermined price. A foreign currency call option grants the holder the right, but not the obligation, to purchase at a future date a specified amount of a foreign currency at a predetermined price.

As in the case of other types of options, the benefit to the Fund from purchases of foreign currency options will be reduced by the amount of the premium and related transaction costs. In addition, if currency exchange rates do not move in the direction or to the extent anticipated, the Fund could sustain losses on transactions in foreign currency options which would require it to forego a portion or all of the benefits of advantageous changes in such rates.

Any options on foreign currencies written by the Fund will be covered. A call option is “covered” if the Fund owns the underlying foreign currency covered by the call or has an absolute and immediate right to acquire that foreign currency without additional cash consideration (or for additional cash consideration held in a segregated account by its custodian) upon conversion or exchange of other foreign currency held in its portfolio. A call option is also covered if the Fund has a call on the same foreign currency and in the same principal amount as the call written, so long as the exercise price of the call held (i) is equal to or less than the exercise price of the call written or (ii) is greater than the exercise price of the call written if the difference is maintained by the Fund in cash, U.S. government securities or other liquid, high-grade debt securities in a segregated account with its custodian. The Fund covers any put option it writes on foreign currencies by holding with its custodian, in a segregated account, cash, U.S. government securities or other liquid, high-grade debt securities in an amount equal to the option price.

The Fund may not purchase or write options on foreign currencies if, as a result, the Fund will have more than 20% of the value of its total assets invested in, or at risk with respect to, such options.

Futures Contracts

The Fund may enter into contracts for the purchase or sale for future delivery (“futures contracts”) of foreign stock or bond indices or other financial indices that the Adviser and the Manager determine are appropriate to hedge the risks associated with changes in interest rates or general fluctuations in the value of the Fund’s portfolio securities.

Pursuant to the regulations of the CFTC, and subject to certain restrictions, the Fund may purchase or sell futures contracts that are traded on U.S. exchanges that have been designated as contract markets by the CFTC. The Fund may also generally purchase or sell futures contracts that are subject to the rules of any foreign board of trade (“foreign futures contracts”). The Fund may not, however, trade a foreign futures contract based on a foreign stock index unless the contract has been approved by the CFTC for trading by U.S. persons.

The Fund is required to make a margin deposit in cash or government securities with a broker or custodian to initiate and maintain positions in futures contracts. Minimal initial margin requirements are established by the futures exchange and brokers may establish margin requirements which are higher than the exchange requirements. After a futures contract position is opened, the value of the contract is marked to market daily. If the futures contract price changes to the extent that the margin on deposit does not satisfy margin requirements, payment of additional “variation” margin is required. Conversely, reduction in the contract value may reduce the required margin resulting in a repayment of excess margin to the Fund. Variation margin payments are made to and from the futures broker for as long as the contract remains open.

Notwithstanding the foregoing, the Fund will generally only purchase or sell futures contracts (including foreign currency exchange contracts), or options thereon, for bona fide hedging purposes, as defined in applicable CFTC regulations. If the Fund purchases or sells such futures contracts (including foreign currency exchange contracts), or options thereon for purposes other than bona fide hedging transactions, in accordance with CFTC regulations, the Fund will in no event purchase or sell futures contracts if immediately thereafter the sum of the amounts of initial margin deposits and premiums on the Fund’s existing futures contracts would exceed 5% of the fair market value of the Fund’s total assets. The Adviser reserves the right to comply with such different standards as may be established by the CFTC with respect to the purchase or sale of futures contracts and foreign futures contracts.

Options on Securities and Options on Indices

The Fund may purchase or sell exchange traded or over-the-counter put and call options on its portfolio securities.

The Fund may write covered put and call options on portfolio securities to generate additional revenue for the Fund and, in certain circumstances, as a partial hedge (to the extent of the premium received less transaction costs) against a decline in the value of portfolio securities and in circumstances in which the Adviser anticipates that the price of the underlying securities will not increase above or fall below (in the case of put options) the exercise price of the option by an amount greater than the premium received (less transaction costs incurred) by the Fund. Although writing put and call options may generate additional revenue for the Fund, such revenue is incidental to the Fund's efforts to achieve its investment objective. The Fund's strategy limits potential capital appreciation in the portfolio securities subject to the options.

The Fund may write only covered options. "Covered" means that, so long as the Fund is obligated as the writer of a call option, it will own either the underlying securities or an option to purchase the same underlying securities having an expiration date not earlier than the expiration date of the covered option and an exercise price equal to or less than the exercise price of the covered option, or establish or maintain with its custodian for the term of the option a segregated account consisting of cash, U.S. government securities or other liquid, high-grade debt obligations having a value equal to the fluctuating market value of the option securities. The Fund will continue to cover any put option it writes by maintaining a segregated account with its custodian as described above.

The Fund may not purchase or write options on securities or options on indices if, as a result, the Fund will have more than 5% of the value of its total assets invested in, or at risk with respect to, either such class of options.

The Fund's successful use of options and futures depends on the ability of the Adviser to predict the direction of the market, and is subject to various additional risks. The investment techniques and skills required to use options and futures successfully are different from those required to select equity and equity-linked securities for investment. The correlation between movements in the price of the option or future and the price of the securities being hedged is imperfect and the risk from imperfect correlation increases, with respect to stock index futures and options, as the composition of the Fund's portfolio diverges from the composition of the index underlying such index futures and options. In addition, the ability of the Fund to close out a futures or options position depends on a liquid secondary market. There is no assurance that liquid secondary markets will exist for any particular option or futures contract at any particular time. The securities the Fund is required to maintain in segregated accounts in connection with its hedging transactions are not available for investment in accordance with the Fund's investment objective of long-term capital appreciation.

On U.S. exchanges, once an option contract has been accepted for clearance, the exchange clearing organization is substituted as both buyer and seller of the contract, thereby guaranteeing the financial integrity of the option contract. Options on securities and on indices traded on certain non-U.S. exchanges may not be so guaranteed by a clearing organization. The absence of such a role for a clearing organization on such a non-U.S. exchange would expose the Fund to the credit risk of its counterparty. If its counterparty were to default on its obligations, the Fund could lose the expected benefit of the transaction.

Repurchase Agreements

When cash may be available to the Fund for only a few days, the Fund may invest such cash in repurchase agreements until such time as it otherwise may be invested or used for payments of obligations of the Fund. In these transactions, the Fund purchases a security and simultaneously commits to resell that security to the seller at an agreed-upon price and date. The resale price reflects the purchase price plus an agreed-upon market rate of interest, which is unrelated to the coupon rate or maturity of the security purchased. The obligation of the seller to pay the agreed-upon price is secured by the value of the underlying securities, which is maintained at the Fund's custodian at a value at least equal to the resale price. The Adviser monitors the adequacy of the collateral on a daily basis to ensure that the collateral always equals or exceeds the repurchase price. Repurchase agreements could involve certain risks in the event of default or insolvency of the other party, including possible delays or restrictions upon the Fund's ability to dispose of the underlying securities. The Fund could suffer a loss to the extent proceeds from the sale of collateral were less than the value of the contract.

The Fund may not invest its assets in repurchase agreements with a maturity of more than seven days, but the collateral securities may have maturities of more than one year. The Fund has not adopted an investment restriction limiting the value of its total assets not invested in accordance with its fundamental investment policy that may be invested in repurchase agreements. To minimize the risks of such investments, however, the Fund enters into repurchase agreements only with its custodian, other member banks of the Federal Reserve System having assets in excess of \$1 billion, and recognized primary U.S. Government securities dealers determined by the Adviser, subject to review by the board of the Fund, to be creditworthy.

Repurchase agreements do not constitute cash, cash items, receivables or government securities for purposes of the federal tax diversification test. Therefore, the Fund limits its investments in repurchase agreements with any one bank, dealer, broker or other entity in order to comply with the federal tax diversification test.

Debt Securities

The Fund may invest up to 20% of its assets in non-equity linked debt securities including foreign denominated corporate debt and sovereign debt issued by foreign governments, their agencies or instrumentalities, or other government-related entities. Debt securities, such as bonds, involve credit risk. This is the risk that the issuer will not make timely payments of principal and interest. The degree of credit risk depends on the issuer's financial condition and on the terms of the debt securities. Changes in an issuer's credit rating or the market's perception of an issuer's creditworthiness may also affect the value of a Fund's investment in that issuer. All debt securities are subject to interest rate risk. This is the risk that the value of the security may fall when interest rates rise. If interest rates move sharply in a manner not anticipated by the Adviser, a Fund's investments in debt securities could be adversely affected and the Fund could lose money. In general, the market price of debt securities with longer maturities will go up or down more in response to changes in interest rates than will the market price of shorter-term debt securities. In addition, debt securities issued in foreign currency denominations will be subject to currency risk.

Investment in sovereign debt can involve a high degree of risk. The governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. A governmental entity's willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the governmental entity's policy towards the International Monetary Fund and the political constraints to which a governmental entity may be subject. Governmental entities may also be dependent on expected disbursements from foreign governments, multilateral agencies and others abroad to reduce principal and interest arrearages on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on the implementation of economic reforms and/or economic performance and the timely service of such debtor's obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the governmental entity, which may further impair such debtor's ability or willingness to timely service its debts. Consequently, governmental entities may default on their sovereign debt. Holders of sovereign debt may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. In the event of a default by a governmental entity, there may be few or no effective legal remedies for collecting on such debt.

Securities Lending

The Fund may lend portfolio securities with a value not exceeding 33 1/3% of its total assets or the limit prescribed by applicable law to banks, brokers and other financial institutions. In return, the Fund receives collateral in cash or securities issued or guaranteed by the U.S. Government, which will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. The Fund maintains the ability to obtain the right to vote or consent on proxy proposals involving material events affecting securities loaned. The Fund receives the income on the loaned securities. Where the Fund receives securities as collateral, the Fund receives a fee for its loans from the borrower and does not receive the income on the collateral. Where the Fund receives cash collateral, it may invest such collateral and retain the amount earned, net of any amount rebated to the borrower. As a result, the Fund's

yield may increase. Loans of securities are terminable at any time and the borrower, after notice, is required to return borrowed securities within the standard time period for settlement of securities transactions. The Fund is obligated to return the collateral to the borrower at the termination of the loan. The Fund could suffer a loss in the event the Fund must return the cash collateral and there are losses on investments made with the cash collateral. In the event the borrower defaults on any of its obligations with respect to a securities loan, the Fund could suffer a loss where there are losses on investments made with the cash collateral or where the value of the securities collateral falls below the market value of the borrowed securities. The Fund could also experience delays and costs in gaining access to the collateral. The Fund may pay reasonable securities lending agent, administrative and custodial fees in connection with its loans.

Portfolio Turnover

It is the Fund's policy to sell any security whenever, in the opinion of the Adviser, the appreciation possibilities of the security have been substantially realized or the business or market prospects for the issuer of such security have deteriorated, irrespective of the length of time that such security has been held. In addition, the Fund from time to time may engage in short-term transactions in order to take advantage of what the Adviser believes to be market inefficiencies in the pricing of equity and equity-linked securities. The Adviser expects that the Fund's annual rate of portfolio turnover may exceed 100% at times when the Fund is taking advantage of short-term trading opportunities or if a complete reallocation of the Fund's investment portfolio becomes advisable. A 100% annual turnover rate would occur if all of the securities in the Fund's portfolio were replaced once within a period of one year. The turnover rate has a direct effect on the transaction costs borne by the Fund.

Investment Restrictions

The Fund has adopted certain investment restrictions that may not be changed without the prior approval of a majority of the board. For purposes of the non-fundamental restrictions listed below and other investment restrictions of the Fund described in this prospectus, all percentage limitations apply immediately after a purchase or initial investment, and any subsequent change in any applicable percentage resulting from market fluctuations does not require elimination of any security from the Fund's portfolio. Under its investment restrictions, the Fund may not:

Purchase any securities (other than obligations of the U.S. government, its agencies or instrumentalities or securities of other regulated investment companies) if as a result more than 25% of the Fund's total assets would be invested in securities of any single issuer.

Invest 25% or more of the value of its total assets in a particular industry. This restriction does not apply to securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, but will apply to foreign government obligations until such time as the SEC permits their exclusion.

Purchase more than 10% of the outstanding voting securities of any one issuer.

Issue senior securities, pledge its assets or borrow money in excess of 10% of the total value of its assets (including the amount borrowed) less its liabilities (not including its borrowings) and other than for temporary or emergency purposes or for the clearance of transactions, except that the Fund may borrow from a bank or other entity in a privately arranged transaction for repurchases and/or tenders for its shares, if after such borrowing there is asset coverage of at least 300% as defined in the 1940 Act, and may pledge its assets to secure any permitted borrowing. For the purposes of this investment restriction, the Fund will not purchase additional portfolio securities while borrowings exceed 5% of the Fund's total assets; and collateral arrangements with respect to the writing of options or the purchase or sale of futures contracts are not deemed a pledge of assets or the issuance of a senior security.

Make loans, except through purchasing debt obligations, lending portfolio securities and entering into repurchase agreements consistent with the Fund's investment objective and policies.

Purchase or sell real estate or real estate mortgage loans, except that the Fund may purchase and sell securities secured by real estate or interests therein.

Make short sales of securities or maintain a short position in any security.

Purchase securities on margin, except such short-term credits as may be necessary or routine for the clearance or settlement of transactions, and except that the Fund may engage in transactions as described under "Investment Objective and Policies--Hedging Transactions" and post margin in connection therewith consistent with its investment policies.

Underwrite securities of other issuers, except insofar as the Fund may be deemed an underwriter under the Securities Act in selling portfolio securities.

Buy or sell commodities, commodity contracts or futures contracts (other than as described under "Investment Objective and Policies—Hedging Transactions").

11.

Buy, sell or write put or call options (other than as described under “Special Leverage Considerations - Hedging Transactions”).

The Fund is also subject to certain diversification requirements with respect to its qualification as a “regulated investment company&r